

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00	DODE-00
	DOEE-00	ITCE-00	DOTE-00	PDI-00	DS-00	EB-00	EXME-00
	E-00	FAAE-00	FBIE-00	UTED-00	VCI-00	FOE-00	FRB-00
	H-00	TEDE-00	INR-00	L-00	VCIE-00	NSAE-00	ISN-00
	NSCE-00	OMB-00	NIMA-00	ISNE-00	SP-00	IRM-00	SSO-00
	SS-00	STR-00	FMP-00	BBG-00	IIP-00	DSCC-00	PRM-00
	DRL-00	G-00	NEAT-00	SAS-00	SWCI-00	/001W	

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STATE FOR WHA/MEX, WHA/EPSC, EB/IFD, AND EB/EPPD

STATE PASS USAID FOR LAC:MARK CARRATO

TREASURY FOR IA MEXICO DESK: JASPER HOEK

COMMERCE FOR ITA/MAC/NAFTA: ANDREW RUDMAN

E.O. 12958: N/A

TAGS: ECON, EFIN, EINV, PGOV, MX

SUBJECT: MEXICAN ELECTORAL UNCERTAINTY -- INITIAL MARKET
REACTION

Sensitive but unclassified, entire text.

1. (SBU) Summary. Following Sunday's indeterminate election results, the Mexican Stock Market (Bolsa) opened July 3 up 4.17% where it remains at midday. The peso rose Monday morning to between 11.10 and 11.20 to the dollar after having closed June 30 at 11.42. While some observers point to optimism at the Calderon lead, most note that the Mexican markets will not react completely to the current situation until after the July 4 holiday. None of the market watchers we spoke with expressed significant concern over the current uncertainty. End Summary.

2. (SBU) [REDACTED] expects that the brief rally in Mexican markets will be short lived. No matter who wins, he said, markets will return to levels consistent with macroeconomic variables which included

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Mexico's strong economic fundamentals in Mexico and higher interest rates abroad. The exchange rate would hover between 11.30 and 11.40.

3. (SBU) [REDACTED]

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[REDACTED] also expected the spike to continue at least through the first half of the week with greater volatility. They see investors as optimistic and willing to wait at least two weeks to gauge how the political scene develops. He expressed regret over U.S. headlines on the election which he criticized as "exaggerated."

4. (SBU) [REDACTED]

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[REDACTED] agreed that, even before the final counts came in, markets already discounted a Calderon victory. At this point, none of the advisors saw trends changing to favor Lopez Obrador. [REDACTED] believed that AMLO, under pressure from the Mexican press, would respect the Federal Election Institute's (IFE) results, although he would inspect the count closely. The analysts noted that Investors could see that the election was a very transparent process and this would contribute to stability. Different from other elections, the 2006 presidential election count was completely "on line" in which all observers would learn of the results in real time.

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5. (SBU) [REDACTED] added that investors were also optimistic about Congress' composition in which PAN is winning seats and PRI is losing significant ground. He called the PRI "the main obstacle for passing needed reforms during the Fox administration."

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